

BUSINESS MEETING
BEFORE THE
CALIFORNIA ENERGY RESOURCES CONSERVATION
AND DEVELOPMENT COMMISSION

In the Matter of:)
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Business Meeting)
)
_____)

CALIFORNIA ENERGY COMMISSION
HEARING ROOM A
1516 NINTH STREET
SACRAMENTO, CALIFORNIA

WEDNESDAY, OCTOBER 9, 2002
10:06 A.M.

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COMMISSIONERS PRESENT

William J. Keese, Chairman

Robert Pernell

Arthur H. Rosenfeld

James D. Boyd

John L. Geesman

STAFF PRESENT

Steve Larson, Executive Director

Jonathan Blees, Assistant Chief Counsel

Betty McCann, Secretariat

Don Kondoleon

Valentino Tiangco

Elaine Sison-Lebrilla

John Beyer

Joseph O'Hagan

Claudia Orlando

Sherry Stoner

Tim Schmelzer

Marwan Masri

PUBLIC ADVISER

Grace Bos

ALSO PRESENT

Ed Smeloff

San Francisco Public Utilities Commission

ALSO PRESENT

Jared Blumenfeld
City and County of San Francisco

Dave Hawkins
California Independent System Operator

Greg Karras
Communities for a Better Environment

Mike Carroll, Attorney
Latham and Watkins
Mirant Corporation

Janie Painter
Save Medicine Lake Coalition

Robert Carr
Jefferson Democratic Club of Siskiyou County

Peggy Reich
Mt. Shasta Bioregional Ecology Center

Michelle Berbitschevsky
Native Coalition for Medicine Lake Highlands
Defense

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P R O C E E D I N G S

10:06 a.m.

CHAIRMAN KEESE: Call this meeting of the Energy Commission to order. Mr. Rosenfeld, would you lead us in the Pledge, please.

(Whereupon the Pledge of Allegiance was recited in unison.)

CHAIRMAN KEESE:

CHAIRMAN KEESE: Good morning, everyone.

May I have a motion on the consent calendar?

COMMISSIONER BOYD: So moved.

CHAIRMAN KEESE: Motion, Commissioner Boyd.

COMMISSIONER ROSENFELD: Second.

CHAIRMAN KEESE: Second, Commissioner Rosenfeld.

All in favor?

(Ayes.)

CHAIRMAN KEESE: Adopted four to nothing.

We'll take up item 2, which is the San Francisco Electricity Resource Plan. Informational presentation by Mr. Smeloff. Good morning.

1 MR. SMELOFF: Good morning, Mr. Chairman
2 and Commissioners. Good to see my long-time
3 friends here, be back in Sacramento. And I want
4 to thank Commissioner Rosenfeld for offering the
5 invitation to be here to share with you our
6 electricity resource plan.

7 I want to introduce the Director of the
8 Department of the Environment for San Francisco,
9 Jared Blumenfeld. The plan that we're going to
10 present to you is a joint endeavor of both the San
11 Francisco Public Utilities Commission where I
12 work, and the Department of the Environment.

13 Going to have Mr. Blumenfeld initiate
14 this and explain the genesis of the plan, the
15 process that we used in its development, and where
16 we're going with this.

17 MR. BLUMENFELD: Thanks, Ed; and thanks,
18 again, to the Commissioners for hosting this
19 informational session.

20 San Francisco, the City and County of
21 San Francisco is facing a twin crisis. The first
22 one is an environmental justice crisis that is
23 ongoing. The second, which we want to avert, is
24 an upcoming electricity crisis.

25 The PUC, the San Francisco Public

1 Utilities Commission and the Department of
2 Environment engaged in this process at the behest
3 of the Board of Supervisors.

4 In May 2001 the Board of San Francisco
5 passed a unanimous resolution called the human
6 health and environmental protection for new
7 electricity generation ordinance.

8 And basically it asked the two
9 departments to come together to develop a plan for
10 all feasible alternatives to replace fossil fuel
11 generation in the City.

12 The plan identifies a critical energy
13 shortfall that may hit San Francisco within the
14 next five years, and provides a means to overcome
15 this shortfall while shutting down polluting
16 Hunter's Point Power Plant.

17 Now, often we think of energy and
18 electricity in very dry terms, but at the end of
19 the day when the lights are turned on here or in
20 San Francisco, they have an impact. And in San
21 Francisco that impact is in the southeast of our
22 City, the Bayview community. And there's really a
23 health and environmental justice emergency that is
24 there that's ongoing, that represents itself
25 through both elevated asthma and cancer rates that

1 really is unacceptable in a city like San
2 Francisco, or in fact, any city in the country.

3 In the long run the plan proposes that
4 San Francisco rely on nonpolluting means to meet
5 its power needs through aggressive conservation
6 efforts and efficiency and renewable energy.

7 Because we know that public support is
8 critical to the success of any plan we developed
9 the electricity resource plan as part of a
10 community process. I think this is a real
11 evolution of planning. We can't do things in
12 isolation. The community had very strong and very
13 well articulated views about what they see as the
14 future of electricity planning in San Francisco.

15 I had a guest over from England. They
16 really couldn't believe the level of civic
17 involvement. We were out at a meeting on a
18 Saturday morning in the Bayview. There were over
19 50 people there that came to express their views.
20 And they're really very well educated views on
21 electricity generation. So the community has been
22 a really key stakeholder in this whole process.

23 The process was goal-driven, so
24 basically we had over 17 public meetings. We went
25 out and got people to articulate what they thought

1 the goals of this process should be.

2 So the first one was to maximize energy
3 efficiency. The second was to develop renewable
4 power. The third is to assure reliable power.
5 The fourth was to support affordable electricity
6 bills. The fifth was to reduce air pollution and
7 prevent other environmental impacts. The sixth
8 was to support environmental justice. The seventh
9 was to develop the local economy. And the eighth
10 was to increase local control over energy
11 resources.

12 So, kind of the context of this whole
13 plan is that it was very collaborative. We worked
14 with the administration of Mayor Willy Brown, we
15 worked with the board of supervisors, and we
16 worked with the community.

17 And as we've moved forward, as I'll
18 elucidate in a few minutes, we've also been
19 working very closely with the ISO and members of
20 the CEC Staff at the same time.

21 The electricity resource plan aims to
22 replace San Francisco's dependence on fossil fuel
23 burning power plant with clean, renewable sources
24 of energy.

25 Some of the renewable projects proposed

1 in the plan include a football-sized field solar
2 photovoltaic system at the new Moscone Center,
3 which actually will start production and is under
4 Ed's shop in the next month. And a second is to
5 have solar installation at the southeast
6 wastewater treatment facility.

7 As you may be aware, San Francisco
8 passed two bond initiatives last year. It's
9 really, it's helped galvanize a move towards
10 renewable electricity. One for over \$100 million
11 in bonding authority for municipal buildings; and
12 the other for nonmunicipal sector.

13 The division of labor, at the moment, in
14 San Francisco is that the Department of the
15 Environment deals with conservation and renewables
16 and efficiency for the residential and commercial
17 sectors. And the PUC deals with the municipal
18 load and a whole host of other things that Ed will
19 articulate in his discussion.

20 So we're also looking at things from
21 tidal to wave generation that can be developed
22 with other municipalities at various locations in
23 the Bay, and obviously of connection to the CEC
24 there is the PIER program that the Governor just
25 reauthorized.

1 The plan also projects how the City can
2 reduce its overall energy usage through aggressive
3 efficiency and conservation programs which by and
4 large the CEC has led the way in the most cost
5 effective methods of reducing the energy load.

6 The plan, fully implemented, would
7 decrease San Francisco's nitrogen oxide emissions
8 from nearly 600 tons yearly to about 150 tons.
9 And would cut particulate emissions in half.

10 A number of environmental health issues
11 associated with emissions including, as I
12 mentioned, asthma, respiratory problems, and even
13 cancer. The plan would reduce emissions of
14 greenhouse gas, carbon dioxide a nearly half
15 million tons.

16 San Francisco recently passed a
17 resolution to reduce greenhouse gas emissions by
18 20 percent, the goal being to get 20 percent
19 reduction by 2012 of 1990 baseline numbers. So we
20 have a fairly aggressive program there.

21 The CEC took the initiative during the
22 energy crisis to develop and implement the
23 campaigns to promote energy efficiency from your
24 "flex your power" campaign that you initiated to
25 analyzing consumer behavior patterns.

1 What we'd really like to do in the next
2 step is to replicate the successes of these
3 programs in the San Francisco context. At the end
4 of the day we realize that we need to educate and
5 incentivize customers to be more energy efficient.

6 So, to date, what we've done is we've
7 developed working groups with the community, the
8 CEC, the CPUC, the ISO and PG&E to look at DSM,
9 distributed generation and transmission. So we're
10 really, at the staff level, engaged in coming up
11 with solutions and working how to get to the next
12 level.

13 We are working in the EJ sector. We've
14 already worked with the CEC to get rebates for
15 solar hot water heaters in the Bayview community,
16 and have a training program to promote training of
17 people in the Bayview to help them take advantage
18 of the renewable technology so that in the next
19 San Francisco revolution, which we hope to be
20 energy efficiency and conservation, everyone can
21 participate. Not just, as we saw in the dot.com
22 revolution, an elite few.

23 We have municipal legislation for the
24 commercial sector that we're developing in
25 cooperation with the PUC. We've been working with

1 the Chamber of Commerce in San Francisco very
2 actively.

3 From our perspective the next steps in
4 the way the CEC can really help, and I think this
5 is a good kind of context to lead into what Ed
6 will talk about, which is the real specifics of
7 the plan, San Francisco wants to target the
8 downtown corridor office buildings for both
9 efficiency and demand response programs. We need
10 to use buildings and install them enhanced
11 automation technologies to serve as really a case
12 study.

13 What we'd like San Francisco to be is a
14 model. We think we have all the necessary things
15 from political will to educated consumer base, to
16 a really motivated business community that both
17 wants to save money and see San Francisco take
18 leadership in this role.

19 We'd like to follow up with CEC
20 contractors who are working to recruit
21 participants for the enhanced automation demand
22 response program, to try and include some
23 participation from San Francisco. We want to
24 continue working with the CEC Staff regarding
25 metering from San Francisco customers so as to get

1 a better overall picture of San Francisco's energy
2 use.

3 We're very different. And, you know, if
4 you look at the "flex your power" program, we
5 really need to tailor our own flex your power
6 program, because energy usage and our peak demand
7 is completely different. We don't really use air
8 conditioners, even today it was pretty cold in San
9 Francisco this morning, and very warm when you get
10 up here. So we have some unique things that I
11 think we ask to a) want to be aggressive in this
12 area, but b) tailor it to San Francisco's needs.

13 Finally, to let you know where the plan
14 is. There's already been a hearing at the board
15 of supervisors. They have taken their first cut
16 and there was a very long public input process.
17 The next step will be for the board to approve the
18 plan, and for the mayor to sign it.

19 So, that's where the plan is. It's
20 pretty much in its final form. And I think it's a
21 really appropriate time to go back to Ed and he
22 can give the details. And I'll be available at
23 the end to talk about any of the particular issues
24 that you may have of interest or concern.

25 Thank you.

1 CHAIRMAN KEESE: Thank you.

2 MR. SMELOFF: Is that visible to
3 everyone? Let me take advantage of the high-tech
4 audiovisual equipment here, and go through with
5 you some of the details of our electricity
6 resource plan.

7 Let me start with the current situation.
8 San Francisco, perhaps moreso than any other
9 community in the State of California, has some
10 unique vulnerabilities. We are, as you know, at
11 the tip of a peninsula, and we are limited in our
12 ability to import electricity into San Francisco.

13 We have about 65 percent of our peak
14 demand can be met through imports. We have to
15 produce the remainder within the City of San
16 Francisco.

17 All of the power comes up one
18 transmission corridor. There are six overhead
19 lines and one underground line that come through
20 the very same corridor from the San Mateo
21 substation to the Martin substation on the border
22 of San Francisco.

23 Our power plants are getting on in their
24 years. Hunter's Point is 44 years old. The main
25 unit at Potrero is 37 years old. These units,

1 given their age, tend to have a higher forced
2 outage rate than do new, modern, combined cycle
3 power plants, or other new technologies. So, we
4 have some special both planning and operating
5 criteria that the ISO uses to assure reliability
6 for San Francisco.

7 San Francisco operates its system based
8 on the assumption that you need to plan for the
9 outage of both the largest generator and the
10 largest transmission line coming into the City.

11 Our in-City plants, being old, also are
12 not very efficient, and they're relatively dirty.
13 We're facing some major challenges in 2005 in
14 improving the emissions, reducing the emissions of
15 NOx at both of the large facilities. And if we
16 aren't able to achieve them, they would have a
17 limited ability to continue to operate.

18 A concern that we share with the rest of
19 the state is our increasing dependence on natural
20 gas as a source of fuel for power generation, and
21 the price volatility that that dependence
22 triggers.

23 Visual here so you can see what the
24 infrastructure looks like for San Francisco. You
25 can see that the transmission currently comes in

1 from the San Mateo substation to the Martin
2 substation, which is located at the Cow Palace.
3 We have two power plants, one at Potrero that has
4 three peaking units and one thermal unit; and then
5 a second power plant at Hunter's Point with one
6 peaker and a larger thermal unit.

7 We have beside the switchyards and
8 substations at the power plants there's three
9 other major points where the 230 and 115 kV
10 systems terminate, the Embarcadero -- and Mission
11 substations.

12 You'll see here there is a dotted line
13 which is the proposed route of a new, very
14 important transmission line that PG&E is proposing
15 to develop, and which they've just submitted an
16 application to the California Public Utilities
17 Commission.

18 This gives you the overview of the in-
19 City resources that are currently available. The
20 largest unit is the unit 3 at Potrero, 207
21 megawatts. You see each of these face future
22 restrictions in their NOx emissions. The peaking
23 units all use distillate and they're also fairly
24 old, 26 years old; and they're limited in the
25 number of hours that they can operate, to 10

1 percent of the hours over the course of a year.

2 We, as Jared mentioned, have been
3 engaged, thanks to the efforts of Commissioner
4 Geesman, the ISO passed a resolution several
5 months ago to trigger a working group between the
6 ISO Staff, PG&E and the City and community in San
7 Francisco to look at what is required to shut
8 down, remove the reliability must run contract
9 that would trigger the shutdown of the Hunter's
10 Point Power Plant.

11 As a result of that initiative we've had
12 a very cooperative effort with PG&E and they've
13 done some power flow analysis, presenting kind of
14 a high level view of that analysis. And this
15 slide, the existing system in San Francisco, has
16 the capability of serving 920 megawatts of load
17 assuming that you are prepared to lose your
18 largest generator and your largest transmission
19 line.

20 When we look at Hunter's Point it's
21 critical not just to look at San Francisco, but to
22 look at the upper peninsula, as well, because
23 Hunter's Point contributes to reliability in that
24 area north of San Mateo substation. So I'm also
25 showing you what the load-carrying capabilities

1 are north of San Mateo.

2 If Hunter's Point were to be shut down
3 immediately that would reduce our ability to serve
4 load to 850 megawatts in the City of San
5 Francisco, and in the northern peninsula down to
6 1160 megawatts.

7 If Hunter's Point is shut down and that
8 new transmission line that I showed to you on the
9 previous slide is developed, along with two other
10 smaller projects, the upgrade of an existing line
11 of 60 kV to 115 kV, and a cable, 115 kV cable
12 between the Potrero and Hunter's Point stations,
13 if those are put in place then the load-serving
14 capability goes up to 1030 megawatts in the City.

15 Let me contrast that capability with
16 what the forecast of the load is in San Francisco.
17 You have peak demand, winter peak in San Francisco
18 in January of 2001, of 870 megawatts.
19 Interestingly, just as an aside, the winter load
20 appears to be growing more rapidly than the summer
21 load, and we now have a probability of having a
22 peak during the winter just as we have a similar
23 probability of peak during the later summer
24 months, September; we even have peaks can occur
25 into October when the weather is warmer in San

1 Francisco.

2 You'll note here that the forecast that
3 PG&E prepared and submitted to the Energy
4 Commission has changed rather remarkably from
5 2001, which was done at the time when there was
6 robust economy and there was still a lot of
7 dot.com development in San Francisco, to August of
8 2002. And the projected demand is significantly
9 less, particularly in 2005 it drops almost by 100
10 megawatts.

11 This is an area where we want to, in the
12 future, collaborate with the Energy Commission in
13 the area of forecasting and then getting more
14 granular on projecting what the end use demand in
15 various sectors are in the City.

16 Critical issues that we're facing in San
17 Francisco and that were a major driver for the
18 plant, we think they're of concern to the Energy
19 Commission, is when can the Hunter's Point unit 4
20 plant be permanently closed. The City has entered
21 into an agreement back in 1998 with PG&E to do so.
22 It was by Mayor Brown and PG&E. And it hinges on
23 the determination by the ISO that the plant's no
24 longer needed for reliability, and the ISO then
25 can make a decision to remove the reliability

1 must-run contract which it currently operates
2 under. Once that's done, then PG&E's agreed to
3 close the plant.

4 The second key issue for us is what's
5 going to happen with the large unit at Potrero.
6 Should it be retrofitted -- it's 37 years old now;
7 should it be retrofitted in 2005 or 2006 for
8 emissions? Triggering an investment, perhaps of
9 \$30 million or so. And then extending its life
10 into the subsequent decade. Or can we put
11 together a plan and resources that allow for the
12 phase-out of that older unit, as well.

13 So in developing the plan we did an
14 inventory of what were the potential new resources
15 within San Francisco and nearby San Francisco that
16 could be developed in the timeframe of the plan,
17 which was a ten-year timeframe, to 2012.

18 Let me mention we were aided in this
19 process, we were ably aided by the Rocky Mountain
20 Institute. And we have a consultant here, Joel
21 Swisher, who is from the Rocky Mountain Institute
22 who did a lot of the modeling for us, assisted us
23 in this plan.

24 So we looked at resources
25 comprehensively, new generation, new transmission

1 resources, and demand reduction resources.

2 For the generation resources we looked
3 at the opportunities to develop a large combined
4 cycle power plant in the City. Specific
5 opportunities for cogeneration. We met with a
6 number of thermal hosts and potential developers
7 to see where cogeneration could feasibly be
8 developed. Two prominent sites we identified were
9 downtown to serve the downtown steam loop with the
10 district heating system. And the University of
11 California Mission Bay campus, which is where the
12 new health science campus and potentially hospital
13 is going to be developed. They've already put in
14 place both a steam loop and a chilled water loop
15 at the existing facilities at Mission Bay.

16 We've also looked at the potential of
17 siting smaller scale combustion turbines, LM6000,
18 similar to the technology that we put in place at
19 SMUD when I was here in Sacramento.

20 We very aggressively looked at
21 opportunities for solar, both in the public
22 sector, which we're initiating right now, and then
23 in the private sector. And also fuel cells and
24 other distributed generation technologies. A
25 number of companies that are interested in

1 distributed generation met with us and have
2 already identified several opportunities for DG in
3 the City.

4 For transmission I mentioned to you that
5 we looked at the upgrade of the 60 kV to 115 kV
6 power line. The new 230 kV line that PG&E is
7 proposing to bring in another route that is
8 separated from the existing San Mateo to Martin
9 route. It would give us some additional diversity
10 in our import capability.

11 Another resource we're very actively
12 investigating and doing a lot of the detailed
13 analysis now is a small combined cycle power plant
14 out at the airport. It would be operated by the
15 City. It would provide regional reliability. It
16 would provide us some drought insurance for the
17 Hetch-Hetchy water and power utility, which
18 primarily relies on hydroelectric facilities. And
19 it would provide additional security and
20 reliability for the airport, since it could be
21 operated in an island configuration.

22 In addition to that we've looked at
23 opportunities outside of the City for developing
24 other renewable energy technologies. Particularly
25 wind technology, and we've discussed potential

1 wind development with a number of developers.

2 And then lastly we're looking at the
3 potential long term for upgrades in existing
4 system at the Hetch-Hetchy where we have three
5 hydroelectric plants.

6 And then very importantly, the potential
7 for demand reduction. Mr. Blumenfeld mentioned in
8 his introductory remarks that the Department of
9 the Environment is looking at ways of increasing
10 public awareness of the continuing need for
11 conservation, load reduction in the City.

12 Innovative ways to use codes and incentives in the
13 building sector for San Francisco to incent load
14 reduction.

15 And we're very much interested in the
16 technology that Commissioner Rosenfeld strongly
17 supports in real time metering and getting the
18 appropriate rate structure in place so that we can
19 provide incentives to reduce load, and do that on
20 an economically efficient basis.

21 Let me get to our recommendations. I'm
22 focusing first on the period of time prior to
23 2005. That really is a critical period for the
24 City of San Francisco. We need to very
25 aggressively put resources in place so that we can

1 shut down Hunter's Point prior to 2005.

2 That's what the community expects from
3 us. We've had a number, as Mr. Blumenfeld
4 mentioned, a number of meetings in the community.
5 And there's a very strong impetus for us to shut
6 that plant down before it would have to be
7 retrofitted or continue to operate using emission
8 reduction permits.

9 In order to shut down Hunter's Point we
10 need to put in place, our plan calls for putting
11 in place 16 megawatts of load reduction, beyond
12 that that's already programmed into load
13 forecasts. Seventeen megawatts of small scale
14 generation, mostly combined heat and power; other
15 distributed generation technologies.

16 And then the plan calls for the
17 implementation of three LM6000, approximately 50
18 megawatt in size, combustion turbines.

19 That would enable us, in our view, and
20 we're testing this with PG&E and the ISO through
21 their power flow analysis, which is to be
22 completed on October 23rd, but we're persuaded
23 that that would allow us to close the 163 megawatt
24 Hunter's Point Plant with a much more flexible,
25 operationally flexible set of resources that would

1 provide a higher level of reliability.

2 It also, interestingly because the
3 plants are actually cleaner than the Potrero Unit
4 3, and thermally more efficient than Unit 3, and
5 operationally more flexible than Unit 3, would
6 allow the combustion turbines to be used ahead of
7 the existing Potrero Plant in meeting the
8 reliability needs of San Francisco.

9 Our goal would be to cooperate with the
10 owners of Potrero 3 to put together an
11 environmental dispatch protocol is that the new
12 combustion turbines could be dispatched jointly
13 with Potrero 3, allow it to operate at a minimum
14 load position for much of the year when the
15 combustion turbines would be operating at a higher
16 load.

17 Following 2005 our goal is then to put
18 in place the two cogeneration plants, one in 2005
19 and the next in 2006, which would further reduce
20 the need to rely on Potrero Unit 3. And we think
21 could eliminate the requirement that Potrero 3 put
22 on SCR or other air quality retrofits.

23 We believe, and the power flow studies
24 will test this, if Potrero 3 can be closed, then
25 once the Jefferson Martin transmission line is

1 completed, PG&E has slated completion for
2 September of 2005. I mentioned they just
3 submitted their CPCN to the Public Utilities
4 Commission.

5 While we think that's a laudable goal to
6 achieve that, we are assuming that there may be
7 some slippage in that schedule, and we want to
8 have sufficient flexibility in this plan that if
9 Jefferson/Martin is not completed by that time, we
10 still are able to reliably meet the electricity
11 needs.

12 A clear benefit of this plant is that
13 the new fossil generation is used fewer and fewer
14 hours through the time horizon of the plant as we
15 develop additional renewable energy resources and
16 implement additional energy efficiency.

17 This is the big picture; this is what
18 the world could look like in San Francisco in the
19 year 2012 if we are successful in carrying out all
20 of the measures in our plan.

21 We would reduce peak demand by 107
22 megawatts through load management energy
23 efficiency. We would have implemented three
24 operational flexible combustion turbines and put
25 in place 100 megawatts of cogeneration.

1 Our goal for solar is to install 50
2 megawatts of solar. As the price comes down for
3 solar we will be installing more and more each
4 year. And was mentioned, the first project at the
5 Moscone Convention Center is 670 kilowatts. It
6 will be breaking ground in a couple of weeks. A
7 14-week construction period. It came in at \$6.5 a
8 watt, which we think is a very attractive price.

9 We think over time, as we build capacity for
10 solar, that price is going to become better and
11 better.

12 We slate 150 megawatts in wind energy to
13 be developed, most likely through power purchase
14 agreements with private developers of wind. And
15 then we have an additional 72 megawatts of small
16 scale distributed generation. We think in the
17 latter years that will be more likely to be fuel
18 cells; in the earlier years it's going to probably
19 be combined heat and power systems.

20 We also foresee the upgrade of the San
21 Mateo Martin line, and the new Jefferson to Martin
22 line.

23 Just to show you graphically what this
24 does in terms of environmental benefits: Reduces
25 emissions of NOx by 73 percent. Cuts emissions of

1 PM10 in half. The largest achievement of these
2 benefits are achieved in the early years through
3 the closure of Hunter's Point and the reduction in
4 number of hours of operation of Potrero 3.

5 There's also a major greenhouse gas
6 benefit from the cogeneration systems, from the
7 renewable, through the increased improved
8 efficiency of the fossil units that would replace
9 Hunter's Point and Potrero. You can see that we
10 almost -- we achieve 500,000 ton reduction in
11 carbon dioxide emissions by 2012.

12 So let me summarize. We believe these
13 are the benefits of our recommended resource plan.
14 Major reductions in local air pollution.
15 Increased reliability of the electric service.
16 The single largest unit is reduced from 207
17 megawatts to 50 megawatts. There's an increased
18 redundancy. These are newer units that have
19 greater operational flexibility. And we start it
20 up and shut down relatively short period of time
21 compared to the long startup times for the
22 existing thermal units.

23 We increase local control over power
24 resources through more distributed technologies
25 and more load responsive -- price responsive load.

1 This is an aggressive program for developing
2 renewables. We think that, if we can couple it
3 with measures being done here in Sacramento by
4 SMUD and in San Diego and elsewhere, we can
5 accelerate the development of advanced and
6 renewable technologies.

7 Very important for our community is the
8 dispersion of sources of generation, rather than
9 have them be concentrated in two neighborhoods
10 which are low income, predominately African-
11 American-Latino neighborhoods, the responsibility
12 and burden is dispersed more evenly throughout the
13 community.

14 And very importantly, it results in the
15 closure of the Hunter's Point Power Plant.

16 Implementation of our plan is going to
17 be a challenge. It's going to require a lot of
18 cooperation. We're going to need to partner with
19 a number of state agencies including your
20 Commission. We're looking at community
21 aggregation in San Francisco. Our Assemblywoman
22 Carol Migden passed legislation that makes that an
23 option for San Francisco. I think our board of
24 supervisors is very interested in that
25 possibility.

1 We need to work closely with the CPUC in
2 developing an implementation plan and gaining an
3 understanding of how any historical procurement
4 costs should be allocated to the City.

5 We're very aggressive in supporting PG&E
6 and the licensing of the transmission line. There
7 are benefits for San Francisco and the upper
8 peninsula of doing that. It provides a lot more
9 security in the event of a catastrophic failure of
10 the existing overhead lines.

11 From your Commission we're going to come
12 forward. The cogen plants, based on their size,
13 may or may not require licensing through the
14 Commission. We do the three CTs as a package, as
15 we intend to, we will need to come before you and
16 get siting approval.

17 We, I think, also are interested in
18 working with you in improving the load forecasting
19 methodology that's being used by PG&E, and used in
20 San Francisco, in identifying ways that we can
21 implement efficiency measures in the types of
22 buildings and end uses that we have in San
23 Francisco.

24 We're talking with the California Power
25 Authority about financing the combustion turbine

1 power plants as one of the options, and through
2 their innovative Pulse program, providing
3 financing for some of the distributed generation
4 and solar technologies.

5 We have a very good relationship with
6 the ISO Staff. I can't speak highly enough.
7 Their staff has reached out to us and been very
8 cooperative in helping us in this plan and coming
9 up with the strategy on closing Hunter's Point.

10 We need to, in terms of our airport
11 power plant and the combustion turbines,
12 understand how the RMR process is going to be
13 administered in the future; what the transition
14 will be from these reliability must run units to
15 other mechanisms for providing mitigation, the
16 local market power, and providing incentives for
17 developing resources in the right places.

18 We're following very closely the new
19 market rules that have been proposed both by FERC
20 and the ISO.

21 And then lastly we seek to have a
22 cooperative relationship with PG&E doing as much
23 distributed technologies is going to require
24 increased knowledge, both by the City, local and
25 the end users, and PG&E of the choke-points on the

1 distribution system; where we get the most value
2 from solar and from distributed generation and
3 load reduction.

4 And we want to work cooperatively with
5 PG&E in targeting public goods funds to achieve
6 those goals.

7 So that concludes the presentation. And
8 both Jared Blumenfeld and I will be eager to
9 answer any of your questions.

10 CHAIRMAN KEESE: Thank you, Mr. Smeloff.
11 We had set aside 45 minutes. We started a few
12 minutes late. We have a few moments for questions
13 here. Commissioner Rosenfeld, did you have any
14 comments?

15 COMMISSIONER ROSENFELD: I just want to
16 say I think it's really great that you guys came
17 up here and told us this exciting work. And I
18 sure want to work with you to help get that 107
19 megawatts demand reduction.

20 And one of the things, of course, we
21 want to do is to start pilot programs as soon as
22 possible. So we'll know whether that's smoke or
23 whether it's real.

24 Bless you for coming up.

25 MR. SMELOFF: Thank you.

1 CHAIRMAN KEESE: Commissioner Geesman.

2 COMMISSIONER GEESMAN: I, too, would
3 thank you for the presentation. As you noted, San
4 Francisco faces quite possibly the most
5 complicated electricity future of any of the
6 communities in California. But there are others
7 that do have their complications.

8 I would say that San Francisco is
9 blessed with an active community; a very
10 interested Mayor's Office and Staff. And I would
11 congratulate all of you for the work that you've
12 done. And hope that it can serve as a model for
13 other communities that are facing their own
14 particular energy issues, some of which seem to
15 boil up to this Commission in our siting cases.
16 And hope that our staff could attempt to foster
17 that same capability in other communities around
18 the state. Thank you.

19 CHAIRMAN KEESE: Thank you, Commissioner
20 Geesman. I will say that Commissioner Pernell and
21 I have noticed that you have an active involved
22 community in San Francisco.

23 COMMISSIONER PERNELL: Boy, have we.

24 (Laughter.)

25 CHAIRMAN KEESE: In other forums. And

1 we clearly have recognized that San Francisco has
2 been the most vulnerable community the last couple
3 years. And I'm really intrigued that you have
4 such a good solid proposal here to go forward with
5 and certainly being cooperative.

6 Commissioner Pernell.

7 COMMISSIONER PERNELL: I would just echo
8 everything that has been said, and particularly
9 I'm impressed with the involvement of the
10 community and your interest in environmental
11 justice in those communities that have had the
12 bulk of the pollutants in their community.

13 A couple of questions I have, though.
14 Can't let you off the hook. When I'm in San
15 Francisco you guys ask me all kind of questions.

16 (Laughter.)

17 COMMISSIONER PERNELL: One of them is
18 the plan is very ambitious. And as you know, this
19 Commission has been, along with the present
20 administration, has been concerned about the
21 vulnerability of San Francisco.

22 And we think it's part of our charge to
23 insure that you have power there. This plan, as I
24 understand it, is a ten-year plan. And I guess my
25 question is if one of the proposed measures don't

1 go through, is there a backup? Is there a
2 contingency plan? Is there -- if you don't get
3 the demand reduction you think you're going to
4 get, is there some backup plan to fill those
5 kilowatts or megawatts?

6 MR. SMELOFF: We do think the plan has
7 some flexibility built into it. We are -- if we
8 simply counted on Jefferson/Martin coming into
9 place in September of 2005 as PG&E has indicated,
10 we probably could get by with doing less in terms
11 of demand reduction and the new generation.

12 We don't think that's prudent, simply to
13 put all our eggs in this transmission basket.
14 We're supportive of what PG&E's doing. We put in
15 place I think multiple things that we need to do
16 in the near term with the combustion turbines,
17 with demand reduction, supporting distributed
18 generation.

19 In the event that we were not
20 successful, say in getting the new generation, or
21 sufficient new generation in place, the
22 vulnerability we face is continued operation of
23 Hunter's Point for another year, possibly another
24 two years. That would be a major disappointment
25 for the Mayor and the community.

1 PG&E indicates to us they believe that
2 they can operate the plant using emission
3 reduction credits for that period of time.

4 If we also were unsuccessful and you
5 could see in next year not moving forward
6 aggressively in this, then that would have an
7 impact on the way that the unit 3 at Potrero would
8 be looked at. Probably create more of an impetus
9 to retrofit that unit with SCR so that it can
10 operate at its full capacity into the future.

11 COMMISSIONER PERNELL: We would be
12 interested in your -- certainly I'm interested in
13 your photovoltaic program. And I know that SMUD,
14 also LADWP. And we're looking at additional
15 photovoltaics as it relates to some schools.

16 So perhaps we can sit down and talk
17 about doing some type of power purchase to bring
18 the price down. I noticed that you mentioned
19 that. And, you know, to have entities within the
20 state that are interested in this, and then have
21 some purchase of power, I think collectively
22 sitting down we can benefit the entire state with
23 those purchases, by bringing the price down.

24 MR. BLUMENFELD: Absolutely. I couldn't
25 agree more. We need to make sure that we do these

1 purchases in a coordinated fashion so we don't
2 create bottlenecks and we actually do drive down
3 prices. And I think there's a lot of buying --
4 California really should be the strategic market
5 for the solar industry over the next decade, just
6 as Japan has been in the last few years.

7 MR. BLUMENFELD: Just to add on, in the
8 environmental justice perspective, if we can
9 promote the growth of the PV industries in, you
10 know, communities that have generally been dealt
11 with the negative environmental impacts, and
12 actually create and stimulate jobs through the
13 production of PVs in those communities. That
14 would be an additional benefit.

15 CHAIRMAN KEESE: Thank you.

16 COMMISSIONER BOYD: Mr. Chairman.

17 CHAIRMAN KEESE: Commissioner Boyd.

18 COMMISSIONER BOYD: Let me add my
19 compliments to the City for engaging itself in a
20 comprehensive plan. As one who sits still on the
21 Governor's generation team, which was born in the
22 darkest hours of January 2001, we always nervously
23 watch the San Francisco situation. And it's
24 gratifying to see that you've taken the bull by
25 the horns.

1 You mentioned in your slide
2 presentation, and I've picked it up here in your
3 short-term action plan, and again you mentioned a
4 moment ago, the operation of Potrero 3 in an
5 environmental dispatch mode, and the use of
6 emission reduction credits.

7 And it seems rather key to your hopeful
8 early retirement of that unit. And as reflecting
9 on all that time on the generation team, and how
10 during this crisis we really stressed the emission
11 reduction credit banks of California to facilitate
12 construction.

13 And I know there's some real serious
14 questioning going on in the air quality community
15 of the future emission reduction credits and the
16 availability of them.

17 This is, unfortunately, going to be very
18 vulnerable and -- or a key point, let's just say,
19 to that plan.

20 So I know you'll be working with your
21 Bay Area District, and they in turn with the Air
22 Board and with this agency. And it is something
23 that's one, very key to your plan; and then two,
24 very key to, you know, to our economic expansion
25 overall. In not only your community, but

1 elsewhere.

2 So that is yet another real high hurdle
3 I think we all face in dealing with this.

4 MR. BLUMENFELD: The added complication
5 is in order to get an alternative compliance plan
6 which would extend the life with outfitting
7 controls beyond January 1, 2005, you'd actually
8 need to use interchangeable ERCs.

9 And so they're even more restrictive and
10 less available. And you can't buy those for the
11 purpose of extending the life. So it is an issue
12 that we're dealing with in a cooperative fashion
13 with the power company in San Francisco.

14 MR. SMELOFF: This will be cutting
15 ground, you know, this would be the first of its
16 kind in putting together such a plan for the Bay
17 Area Air Quality Management District.

18 COMMISSIONER BOYD: Yes, having spent a
19 few years in the air quality business I know what
20 you're up against. Wish you well.

21 CHAIRMAN KEESE: Thank you. Hang on for
22 a second, would you? We've received two requests
23 to make brief comments, and while this is an
24 informational presentation and we would generally
25 take those at the end, I think it's probably

1 appropriate we take them at this time.

2 So, I'm going to ask Mr. Karras, Greg
3 Karras.

4 MR. BLUMENFELD: Can I just make one
5 informational point to the public, that the report
6 is available at www.sfenvironment.com. There's a
7 full report, so anyone who's interested in getting
8 a copy, that's how they should do it.

9 CHAIRMAN KEESE: Thank you.

10 MR. BLUMENFELD: Yeah.

11 CHAIRMAN KEESE: Give you a couple
12 minutes.

13 MR. KARRAS: Excuse me?

14 CHAIRMAN KEESE: A couple minutes for --

15 MR. KARRAS: Oh, yeah, I can be very
16 quick. Thank you, Commissioner Keese,
17 Commissioners. I'm Greg Karras; I'm a senior
18 scientist with Communities for a Better
19 Environment. CBE is an environmental health and
20 justice organization with a strong base of
21 membership in southeast San Francisco, the
22 community you've just heard about.

23 I'm also familiar with the plant for a
24 couple of other reasons. One, I was the author of
25 a CBE report entitled "Power and Justice" that

1 came out almost a year ago that laid out options
2 and concluded that essentially the kind of plan
3 the City is proposing was technically feasible.

4 And we're glad to see we appear to have
5 been right about that. I can't tell you how glad,
6 because our members are very burdened. Some of
7 the schools in the area of the Hunter's Point
8 Power Plant, in some of the classrooms more than
9 half the children carry inhalers, just to give you
10 one example of what my bosses are telling me to
11 work on.

12 I'm also the community co-chair of the
13 power flow and forecasting group of ISO Staff,
14 PG&E Staff, City Staff, CPUC Staff that was
15 mentioned earlier.

16 In short, I guess within my two minutes,
17 from the community perspective and an informed
18 community perspective that so far has had a lot of
19 independent analytical support, we find this plan
20 to be feasible, cleaner, to have significant
21 community support, and to be the only option that
22 has been identified to date that is able to
23 address the reliability crunch that's forecasted
24 two to three years.

25 I think you heard a lot about the

1 community process. I would just say that the City
2 came out with options; they didn't tell us what to
3 do. They held hearings. They asked us what we
4 wanted; the community actually was given the time
5 to make a proposal. And except for the 150
6 megawatts of new generation, the City clearly
7 listened to us. That's why this plan has
8 significant informed community support. They did
9 the process right so far.

10 And in terms of being the only option,
11 that's in the short term. In the longer term I
12 guess the distributed generation's benefits are
13 obvious compared to a single centralized power
14 plant. And who would want to have their whole
15 retirement portfolio in Enron? We want to
16 diversify, that's the way to have reliability.

17 And in this case that's also the way to
18 have environmental health and justice.

19 Thank you. I'd be happy to answer any
20 questions if you want.

21 CHAIRMAN KEESE: Thank you, appreciate
22 that.

23 Mr. Carroll.

24 MR. CARROLL: Good morning. My name is
25 Mike Carroll; I'm an attorney with Latham and

1 Watkins, and I represent Mirant Corporation in a
2 siting case that's pending before this Commission.

3 Mirant's the current owner of the
4 existing Potrero Power Plant, and has filed an
5 application to add a new 540 megawatt generating
6 unit at that power plant. That unit is known as
7 unit 7.

8 We would second the comments of many of
9 the Commissioners in terms of the initiative that
10 this City has shown in developing a comprehensive
11 energy plan. It is commendable initiative. We
12 also agree with many of the goals and objectives
13 set forth in the energy plan.

14 Where we part ways with the City Staff
15 in a significant way is with respect to whether or
16 not the proposal that they have set forth is
17 likely to achieve those goals and objectives.

18 Unit 7 is conspicuously absent from the
19 City's energy plan. I say that its absence is
20 conspicuous because unlike most of the other
21 proposals in the plan, it's the only proposal
22 that's significantly through the permitting
23 process, having undergone years of public review
24 and environmental review.

25 Unit 7 also has lower capital costs,

1 lower operating costs and is less polluting than
2 the generating proposals set forth in the City's
3 plan.

4 One has to wonder why the City Staff
5 would fail to include unit 7 in its plan in favor
6 of less efficient, higher emitting generating
7 units owned and operated by the City. It would
8 appear that we have City Staff that is intent on
9 building a public power empire. And that unit 7
10 is not consistent with that objective.

11 One might ask, does the City have the
12 right to choose where it wants to get its power
13 from. And if it wants to build a public power
14 empire, should that be its right? We think that
15 the desires of the local jurisdiction are
16 important in the process. In this case, the
17 citizens of San Francisco, as opposed to the City
18 Staff, rejected in the last election public power.
19 And we think we know what the citizens of San
20 Francisco are looking for.

21 Yet, the City Staff presses on. And the
22 risks of pressing on are not insubstantial.
23 Consider the costs. According to the City's own
24 report, and its consultants back-up analysis, unit
25 7 has the lowest capital cost of all the new

1 generation options of the plan. Unit 7 also has
2 the lower operating costs than proposed City-owned
3 generation. The higher costs of the City proposal
4 will be passed on to the ratepayers and the
5 taxpayers of San Francisco.

6 Consider the environment. Staff likes
7 to talk about all the --

8 CHAIRMAN KEESE: Mr. Carroll, let me --
9 I want to keep you to my two minutes, but I will
10 make an observation that you are correct. It was
11 very apparent to Commissioner Pernell and I that
12 the City did not bring up unit 7 either way. They
13 didn't say anything here positive and it didn't
14 say anything negative against it.

15 We will be down in the City within the
16 next few days to hear a lot more input from
17 individuals on that unit. I don't think this is
18 the forum to debate it.

19 MR. CARROLL: Understood. I won't talk
20 any more about unit 7. Let me just talk for a
21 couple minutes more, if I may, about the City's
22 plan --

23 CHAIRMAN KEESE: Give you one.

24 MR. CARROLL: -- and ask that you
25 consider very carefully the feasibility. The plan

1 calls for 150 megawatts of natural gas fired
2 combustion turbines in 2004. That's one or two
3 power plants subject to the jurisdiction of this
4 Commission, to be planned, approved, financed and
5 constructed by the end of 2004. A little over a
6 year and a half away.

7 As if that weren't enough, the plan
8 calls for ten megawatts of distributed generation
9 to be installed over the same time period, with no
10 apparent consideration as to where that's going to
11 go, or how it will be interconnected to the grid.

12 And finally, just to make sure that
13 there is plenty to do, their seven megawatts of
14 solar generation, you've heard about the Moscone
15 project, that's one-tenth of the planned solar
16 generation in this proposal. That's a football-
17 field-sized installation. That means we need ten
18 more football-field-sized installations somewhere
19 in the City by 2004.

20 We think that given the naively
21 ambitious objectives of the plan that it is highly
22 likely that it will fail. Commissioner Pernell
23 asked a very good question, what's the backup if
24 the plan fails. It's an excellent question
25 because we think it's very likely that certain

1 elements of the plan will fail.

2 The response was our greatest fear.

3 Well, what we would do under that scenario is
4 continue to operate Hunter's Point unit 4 using
5 credits instead of controls. And then we would
6 operate unit 3, and we'd put the SCR on.

7 Well, at that point there isn't going to
8 be time to put SCR on unit 3. That's a multi-year
9 plan and construction process. So the backup plan
10 is to continue running existing inefficient, high-
11 polluting units. We don't think that's right. We
12 think a more balanced reliable plan is what the
13 City needs, including the very commendable
14 objectives for renewables, but with a base of
15 fossil fuel generating plant to meet the
16 reliability needs of the City. And to free the
17 City Staff up to pursue the other, again, very
18 commendable objectives.

19 Thank you very much for your time.

20 CHAIRMAN KEESE: Thank you. This was an
21 informational presentation by the City. The
22 Energy Commission is not taking action on this.

23 MR. CARROLL: I understand that, and I
24 realize we're the, you know, perhaps uninvited
25 skunk at the City's party here, but --

1 (Laughter.)

2 MR. CARROLL: -- we felt the need to
3 make our point.

4 CHAIRMAN KEESE: Thank you.

5 MR. CARROLL: And we have written
6 comments on the plan which I will leave with the
7 clerk, and we'll also docket in the Unit 7
8 proceedings.

9 CHAIRMAN KEESE: Thank you. And
10 finally, thank you, Mr. Smeloff and Mr.
11 Blumenfeld, we appreciate your presentation.

12 We will move on to item 3. Department
13 of Energy, Lawrence Berkeley National Laboratory.
14 Possible approval of contract 150-99-003,
15 amendment 2, for \$1,105,000 to conduct follow-on
16 research on real time grid reliability management.

17 MR. KONDOLEON: Good morning,
18 Commissioners. I am Don Kondoleon, the Manager of
19 the Commission's Transmission Program. And to my
20 right is Dave Hawkins, the R&D Project Director
21 for the California Independent System Operator.

22 I'm also the contract manager for a
23 multiyear, PIER funded, interagency contract with
24 Lawrence Berkeley National Lab whose goal is to
25 maintain and enhance grid reliability in

1 California in the wake of industry restructuring.

2 Now the focus of the contract has been
3 in the real time management area, however the
4 contract also funds activities in the area of
5 distributed energy resources and demand
6 responsiveness. And the Commissioners may recall
7 at the September 11th business meeting you
8 approved an amendment to this contract in the
9 areas of distributed energy resources and demand
10 responsiveness.

11 Now, the Commission has partnered in
12 this contact with CERTS, which is the Consortium
13 for Electric Reliability Technology Solutions and
14 its affiliates, with the California Independent
15 System Operator and with EPRI to develop, test and
16 deploy prototype software at the ISO.

17 Over the past two years the prototypes
18 have been successfully developed and tested at the
19 ISO, including a voltage management tool, a system
20 frequency and regulation tool, and a synchronized
21 phaser measurement tool.

22 This amendment before you today would
23 allow further refinement of these and other tools,
24 and deployment with the ISO operators.

25 The tools identified for funding in this

1 amendment were selected in consultation with the
2 ISO's vice president of operations in order to
3 identify those tools of critical importance to the
4 ISO at this time.

5 We seek your approval of this amendment,
6 and Dave Hawkins and I are here to answer any
7 questions you might have.

8 CHAIRMAN KEESE: Thank you. Do we have
9 any questions from the Commissioners?

10 COMMISSIONER GEESMAN: I'd make a motion
11 to --

12 CHAIRMAN KEESE: Commissioner Geesman.

13 COMMISSIONER GEESMAN: -- approve the
14 contract.

15 COMMISSIONER ROSENFELD: Second.

16 CHAIRMAN KEESE: Motion by Commissioner
17 Geesman, second by Commissioner Rosenfeld.

18 All in favor?

19 (Ayes.)

20 CHAIRMAN KEESE: Opposed? Five to
21 nothing. Thank you.

22 MR. KONDOLEON: Thank you.

23 MR. HAWKINS: Thank you.

24 CHAIRMAN KEESE: I will note that this
25 contract is not subject to executive order D5502,

1 which is true of all the other items that we will
2 take up today.

3 Item 4 has been moved to our agenda of
4 October 23rd. I'll mention at the same time that
5 item 7 is also over for a later hearing.

6 Item 5, renewable energy subject area
7 (PIER). Possible approval of fiscal year
8 2002/2003 funding recommendation for the targeted
9 biomass solicitation for biogas systems or
10 anaerobic digestion technologies.

11 DR. TIANGCO: Good morning,
12 Commissioners. My name is Valentino Tiangco,
13 Biomass Lead of the PIER renewables subject area.

14 On behalf of the renewable energy team
15 of the Public Interest Energy Research program I
16 would like to request for possible approval of the
17 five research and development demonstration
18 projects that will explore the production of
19 electricity using anaerobic digestion technologies
20 from California landfills, food processing plants,
21 livestock farms and potentially wastewater
22 treatment facilities.

23 These selected five projects are the
24 outcome of our targeted biomass solicitation for
25 biogas systems or anaerobic digestion technologies

1 that were released in April this year. And the
2 renewable energy subject area Public Interest
3 Energy Research program.

4 It is our goal in this targeted
5 solicitation that we can help facilitate the
6 accelerated development of biogas systems and
7 anaerobic digestion technologies using biogas
8 resources that we targeted.

9 I just mentioned them; namely landfill
10 waste from California landfills and transfer
11 stations. We have over 2000 landfills in the
12 state and over 300 of them are actively accepting
13 solid waste.

14 Livestock manure from dairy and swine
15 operations. We have over 2000 farms in the state.
16 Wastewater from waste treatment facilities, over
17 240 of them. And food processing waste, over 3000
18 plants, food processing plants, and manufacturing
19 plants in the state.

20 As you know, in general, California is
21 blessed to have abundant biomass resources that
22 can help provide generation capacity to the
23 state's electricity system.

24 For livestock manure alone, California
25 generates over 200 million dry tons, and only less

1 than 1 percent of the livestock manure generated
2 in the state is utilized for anaerobic digestion
3 technologies.

4 We envision that this anaerobic
5 digestion technologies would be used for
6 distributed generation applications that will
7 eventually help California's electricity become
8 more affordable, diverse, reliable and
9 environmentally acceptable and safe.

10 When equipped with anaerobic digestion
11 technologies integrated, of course, with
12 environmentally acceptable -- we estimated that
13 this biogas research could potentially produce up
14 to 240 megawatts of electricity.

15 On July 25 of this year, the deadline of
16 submitting proposals from this targeted
17 solicitation, we received 17 proposals. Two
18 proposals did not pass the screening process and
19 got disqualified. And 15 proposals that passed
20 the screening process were reviewed, evaluated and
21 scored. And out of 15, five got passing score.

22 On September 5 of this year the R&D
23 committee approved the five proposed awards and
24 funding recommendations. The applicants, namely
25 TIAX, LLC of Cupertino will demonstrate project in

1 Marysville landfill using hydrogen based biogas
2 fuel oil to drive a 75 kilowatt cogeneration unit
3 while reducing nitrogen oxide emissions.

4 SCS Consulting Engineers of Long Beach
5 will demonstrate a new 250 kilowatt microturbines
6 and their ability to use landfill gas as fuel.

7 Makel Engineering of Chico, California
8 will demonstrate the biogas phase engine at Butte
9 County landfill with greater efficiency while
10 maintaining ultra low Nox emissions.

11 FlexEnergy, Inc. of Mission Viejo will
12 demonstrate a flexible microturbine that will run
13 on digester gas at California CalPoly San Luis
14 Obispo, and a prototype fuel by landfill gas waste
15 at Puente Hills landfill outside of Los Angeles.

16 And Valley Fig Growers, a food processor
17 in Fresno, will construct and install an anaerobic
18 digester at their facility. The methane produced
19 in this facility will fuel a microturbine that
20 will produce electricity and heat for use at the
21 facility.

22 They are recommended to receive less
23 than \$500,000 each with total amount of grant
24 award of \$2,380,103. And providing over \$2.2
25 million of matching contributions.

1 We believe that this project, if it
2 becomes successful, will help accelerate and
3 extend the development of promising anaerobic
4 digestion technologies for distributed generation
5 applications in the state.

6 Thank you, and I'd be happy to answer
7 any questions.

8 CHAIRMAN KEESE: And this has been
9 approved by the committee, and I believe most of
10 the members have been briefed. Do we have any
11 questions?

12 COMMISSIONER ROSENFELD: I'm ready to
13 move it.

14 CHAIRMAN KEESE: A motion, --

15 COMMISSIONER PERNELL: Second.

16 CHAIRMAN KEESE: -- Commissioner
17 Rosenfeld; second by Commissioner Pernell.

18 All in favor?

19 (Ayes.)

20 CHAIRMAN KEESE: Opposed? Adopted five
21 to nothing.

22 Point of privilege here. Mr. Tiangco is
23 a senior engineer in PIER, has a PhD and an MS in
24 energy; has been working on energy issues for ten
25 years and biomass for over 12. He has a diverse

1 and international professional experience with
2 biomass energy systems, as a researcher,
3 consultant, lecturer, expert.

4 Leading up to the fact that the
5 Department of Energy's Biomass Award is a national
6 award by DOE through its biomass energy program.
7 Awarded for superior achievement in establishing,
8 promoting and implementing projects that
9 demonstrate the efficient use of biomass energy
10 resources and technologies.

11 Where is that award?

12 SPEAKER: It's right here.

13 (Laughter.)

14 CHAIRMAN KEESE: Mr. Simons, would you
15 please present it.

16 (Pause.)

17 CHAIRMAN KEESE: This award was
18 presented to Val at Bioenergy 2002 in September.

19 (Applause.)

20 (Presentation.)

21 DR. TIANGCO: Thank you.

22 CHAIRMAN KEESE: Thank you. Okay.

23 (Applause.)

24 COMMISSIONER ROSENFELD: Val, it's great
25 to see that your good work is appreciated by DOE

1 and outside of the Energy Commission. So,
2 congratulations.

3 CHAIRMAN KEESE: Item 6, geothermal
4 program. Possible approval of fiscal year
5 2002/2003 funding recommendation for the
6 geothermal resources development account. For
7 this solicitation seven projects are proposed to
8 receive awards of \$5,045,174. Good morning.

9 MS. SISON-LEBRILLA: Good morning. My
10 name's Elaine Sison-Lebrilla in the --

11 COMMISSIONER ROSENFELD: Can't hear you,
12 Elaine.

13 MS. SISON-LEBRILLA: Hi, my name's
14 Elaine Sison-Lebrilla. I'm with the geothermal
15 program; I'm the geothermal program manager.

16 You have before you for your approval
17 seven projects resulting from the geothermal
18 program solicitation released this past spring.
19 The program receives its funding from the
20 geothermal resource development account, also
21 known as GRDA.

22 These projects, totaling up to
23 \$5,045,174 are contingent upon the Energy
24 Commission receiving GRDA revenues projected for
25 fiscal year 2002/2003.

1 Funding for each project will not exceed
2 the specified amount requested in the formal
3 application. Projects will be funded in order of
4 ranking beginning with rank one. Most of these
5 projects are drilling exploration projects. Drill
6 and exploration represents a substantial portion
7 of geothermal development costs.

8 Some of the projects will also have
9 special conditions required as part of the funding
10 agreement. The following are the proposed grant
11 recipients in ranking order and their associated
12 special conditions:

13 Number one, Northern California Power
14 Agency. Their project is a dual horizontally
15 completed injection well to enhance geothermal
16 production at the Geysers.

17 Their conditions are that all permits
18 for this project must be received before funds can
19 be released.

20 If this project is not successful, NCPA
21 shall be responsible for all costs of abandoning
22 the well.

23 Number two, Coso Operating Company in
24 association with New Mexico Tech. Their project
25 is fluid inclusion stratigraphy, a new inexpensive

1 method for geothermal reservoir assessment.

2 Number three, Mammoth Pacific Limited
3 Partnership. Their project is demonstrating a
4 microearthquake-based production and injection
5 well-targeting technology. Their conditions is if
6 this project is not successful Mammoth Pacific
7 shall be responsible for all costs of abandoning
8 the well.

9 Number four, Calpine Corporation. Their
10 project is drill exploration well 18-32 at the
11 Pumice Mine Prospect in the Glass Mountain known
12 geothermal resource area. Their conditions are
13 that all permits for this project must be received
14 in order for the funding to be released.

15 Also Calpine Corporation will release
16 data pertaining to well logging and well testing.
17 And also if this project is not successful Calpine
18 Corporation will be responsible for all costs to
19 abandoning the well.

20 Number five, Electromagnetic
21 Instruments, Incorporated. Their project is the
22 geothermal exploration under the Salton Sea using
23 marine magnetotellurics. Their condition is since
24 the survey area appears to be in a wildlife refuge
25 Electromagnetic Instruments, Inc. must provide

1 appropriate permits necessary to implement project
2 before funds can be released.

3 Number six, Weaverville Elementary
4 School District. Their project is a geothermal
5 HVAC conversion. Their condition is the recipient
6 shall bore a new bore hole and conduct tests as
7 recommended in the thermal conductivity report.
8 Funding is contingent upon acceptable results.

9 Number seven, GSY-USA, Inc. Their
10 project is a magnetotelluric survey for resource
11 assessment and environmental mitigation in the
12 Glass Mountain known geothermal resource area.
13 Their conditions is in addition to the release of
14 existing and final data, interpretation maps and
15 profiles of the survey data for the project site
16 must also be released.

17 Also, the grantee shall provide
18 documentation of the value of Calpine data being
19 used as matching funding, recognizing that Calpine
20 holds the leases for geothermal development in the
21 Glass Mountain area.

22 Now, these projects total up to
23 \$5,045,174; matching funds are approximately \$5.5
24 million.

25 CHAIRMAN KEESE: Thank you. Any

1 questions?

2 COMMISSIONER ROSENFELD: Ready to move
3 it.

4 COMMISSIONER GEESMAN: Second.

5 CHAIRMAN KEESE: We have a motion and a
6 second. And we have three individuals on the
7 phone who would like to comment on this. So we
8 will start with Janie Painter.

9 MS. PAINTER: Can you hear me?

10 CHAIRMAN KEESE: Yes, we can.

11 MS. PAINTER: I'm Janie Painter. I'm
12 calling from Mt. Shasta, California. And I'm
13 opposed to geothermal developments there
14 (inaudible). Anyway, I'm the Chairperson of the
15 Save (inaudible) Coalition. Our group (inaudible)
16 property owners, recreation users --

17 COMMISSIONER ROSENFELD: Can't hear her.

18 CHAIRMAN KEESE: I'm sorry, can you hold
19 one second. Betty, can we get this volume up a
20 little?

21 (Pause.)

22 CHAIRMAN KEESE: Are you there?

23 MS. PAINTER: Yes.

24 CHAIRMAN KEESE: Okay, would you mind
25 starting over? We were having difficulty hearing

1 because of volume.

2 MS. PAINTER: Okay, that's fine. I'm
3 Janie Painter; I'm calling from Mt. Shasta,
4 California. I'm the Chairperson of the Save
5 Medicine Lake Coalition. Our group consists of
6 Medicine Lake property owners, recreation users,
7 environmentalists, and concerned citizens, alike.

8 Our flyers and newsletters reach several
9 thousand homes throughout California and
10 elsewhere. We've gathered over 2000 local
11 signatures opposing the geothermal development in
12 the Medicine Lake Highlands Glass Mountain KGRA.

13 Calpine Corporation (inaudible) support
14 for geothermal projects in the Glass Mountain KGRA
15 is false and a smokescreen for the CEC and other
16 agencies.

17 Calpine and GSY-USA are not being
18 truthful in regards to the pumice mine. The area
19 Calpine and GSY-USA want -- for is not a pumice
20 mine. It is actually the Mount Hoffman Roadless
21 area. The Mount Hoffman Roadless area is an
22 environmentally sensitive area surrounded by a
23 pristine forest with unique plant and wildlife
24 species, geological formations and it's also -- a
25 tremendous cultural and spiritual significance for

1 Native Americans.

2 The BLM has said that a new EIR/EIS
3 would have to be written before any, that's any
4 geothermal activity could even be considered in
5 the Mount Hoffman Roadless area. No permits or
6 approvals have been issued by the BLM or the Air
7 District for any exploration in the Mount Hoffman
8 Roadless area aka the pumice mine.

9 Calpine is using CEC ratepayer funding
10 to explore and eventually develop geothermal
11 projects which will not directly benefit or
12 provide California with the electricity produced.
13 The Four Mile Hill and Telephone Flat development
14 projects are power purchase agreements with the
15 Bonneville Power Administration.

16 Calpine tries to rationalize their out-
17 of-state contracts by claiming that some of the
18 BPA power will go to (inaudible) Valley,
19 California, an area with a population of less than
20 1500 people. The economic value and benefit of
21 the pumice mine project has been overstated by
22 Calpine Corporation.

23 Calpine has promised in their
24 application to make a power purchase agreement
25 with the California Authority for the future. I

1 would like to remind the CEC Commissioners that if
2 it's not written into the terms of the grant, then
3 it is not enforceable, and thus Calpine has made
4 an empty promise.

5 I would also like to ask the CEC
6 Commissioners to investigate Calpine's contract
7 with the Bonneville Power Administration prior to
8 granting any award because it may be possible that
9 Calpine's contract with the BPA gives the BPA
10 first choice of any future power generation from
11 the area.

12 With their disappointing and
13 insufficient (inaudible) of exploration well 8828
14 at Four Mile Hill Calpine seems to be grasping at
15 straws to find a viable resource. Several
16 (inaudible) and deep exploration wells were
17 drilled at Telephone Flat in the 1980s and none of
18 those wells proved a notable resource.

19 In light of the previous issues I would
20 like to request that the CEC geothermal resources
21 development account funds go to more worthy
22 projects and that both the GSY-USA and Calpine
23 solicitation for the pumice mine be rejected by
24 the Commission.

25 Thank you very much.

1 CHAIRMAN KEESE: Thank you. May I ask
2 staff some questions. These grants are made
3 contingent upon Calpine receiving permits to take
4 this action, which they do not now have, is that
5 correct? Calpine does not have a permit to go
6 forward at this time, is that what I heard?

7 MS. SISON-LEBRILLA: That's correct.
8 Typically what happens is our moneys do not come
9 into play until they can prove to us that they
10 have permits.

11 CHAIRMAN KEESE: Correct. And whether
12 or not they have a permit is not something we can
13 give consideration in evaluating the
14 appropriateness of a project. That is taken care
15 of in another forum?

16 MS. SISON-LEBRILLA: That's correct. We
17 take a look at -- we look at the technical -- we
18 take a look at the technical merits of the
19 project, and we make the project's funding
20 conditional on whether or not they get all permits
21 required.

22 CHAIRMAN KEESE: And from the
23 information that's been submitted to us, there is
24 federal approval required before Calpine can go
25 forward?

1 MS. SISON-LEBRILLA: That's correct.

2 CHAIRMAN KEESE: Thank you. Do we have
3 any other questions here?

4 Thank you, Ms. Painter. Robert Carr.

5 MR. CARR: The Jefferson Democratic Club
6 of Siskiyou County. Can you hear me okay?

7 CHAIRMAN KEESE: Yes, we can.

8 MR. CARR: I would like to read to you
9 an approximately 300-word letter that was printed
10 in the editorials of The Mount Shasta Herald
11 several months ago, if I may?

12 CHAIRMAN KEESE: Thank you, go forward.

13 MR. CARR: Press release for all
14 Siskiyou County newspapers, letter to the editor,
15 Medicine Lake:

16 "The Jefferson Democrats sent to committee a
17 study proposal for the Medicine Lake
18 caldera --" when I say caldera, please read
19 Glass Mountain. "-- for the Medicine Lake
20 caldera geothermal energy development
21 project."

22 "We looked at usage, cost, need, gain,
23 environment and precedent. We found the
24 project to be wanting on several levels. The
25 most pertinent point of contention was usage.

1 "The two proposed geothermal sites, which
2 are expandable to 11, are highly incompatible
3 with present and future tourism and
4 recreation. Sight, sound, smell, night
5 lights, heavy trucks, pollution are all
6 detractors to the natural outdoor type of
7 recreation and touring the area has to offer.

8 "The area already brings in a substantial
9 amount of tourist dollars to three counties.
10 Service stations, restaurants, motels, local
11 small business all benefit from the Medicine
12 Lake recreation area. The volcanic legacy
13 scenic byway, having just earned a federal
14 all-American road designation, will be
15 another financial boom to business,
16 especially as more and more citizens wish to
17 recreate in the United States."

18 "Our club is skeptical about public
19 financing for private gain. We're also
20 dubious of royalties offered to the county
21 while legislation like House Bill HR-2436,
22 title 3, if passed, would have reduced or
23 eliminated said royalties.

24 "Also, the cost of environmental degradation
25 has been foisted upon the taxpayers by

1 current administration policy. And Calpine,
2 now reduced to junk bond status, should not
3 be relied upon for financial responsibility.

4 "Energy needs are real and can be met by
5 conservation, efficiency standards,
6 alternatives such as solar, wind, ocean,
7 hydrogen alcohol and geothermal. Calpine's
8 new plant may be acceptable for Pittsburg,
9 California; however, the Medicine Lake
10 caldera should serve a different and more
11 important socioeconomic purpose."

12 "And, yes, the Native Americans have a valid
13 precedent for their historic usage claims."

14 "The Jefferson Democrat Medicine Lake
15 caldera statement reads: Whereas tourism is
16 the largest and fastest growing industry in
17 the world and in the United States, and
18 whereas California has many unique and
19 diverse ecosystems within which the Medicine
20 Lake caldera is a unique geological area, we
21 believe that the promotional use of the
22 Medicine Lake caldera for tourism and
23 recreation are more economically advantageous
24 to Siskiyou County than as a geothermal
25 energy site."

1 "Therefore, we strongly recommend that that
2 geothermal development of Medicine Lake
3 caldera be abandoned, and available resources
4 be directed towards tourism and recreation.
5 Sincerely, Robert Carr, Committee Chair,
6 Jefferson Democrats."

7 Thank you.

8 CHAIRMAN KEESE: Thank you very much.
9 Peggy Reich.

10 MS. REICH: My name is Peggy Reich; I'm
11 an environmental research associate for the Mt.
12 Shasta Bioregional Ecology Center. Can you hear
13 me okay?

14 CHAIRMAN KEESE: Very clear.

15 MS. REICH: Okay, great. Our ecology
16 center represents a constituency of approximately
17 4000 people who, over the years, have expressed an
18 interest in the preservation of outstanding
19 landscape in the region. The Medicine Lake
20 Highlands, which is referred to in the application
21 as the Glass Mountain KGRA, is one of those
22 distinguished regions. The cultural resources in
23 the area are unique, and they are also
24 nonrenewable.

25 What I would like to do today is to

1 outline to you why the GRDA funding should not be
2 awarded to the GSY-USA and Calpine's application.
3 And I would ask that the CEC investigate the
4 omission of the significant information that is in
5 the application and the issues that are raised
6 here today.

7 The California Energy Commission has
8 authorization to make inquiry and verify the
9 information in the application and matters
10 contained in section H of the solicitation manual.

11 Calpine has failed to comply with
12 existing state, federal and local laws, rules and
13 regulations that are required in section 22 and
14 section 23 of the general provisions certification
15 and compliance section of their solicitation
16 manual.

17 Therefore, as Ms. Painter outlined
18 before, the 1995 environmental assessment that
19 Calpine relies on is outdated. The interesting
20 point here is that Calpine has notified the CEC
21 of their intent to drill a well, but they have not
22 notified the lead agency in this case. Neither
23 applicant has notified the BLM or the Air District
24 of their intent or applied for the permit. This
25 is a very important point, and Calpine has failed

1 to notify the lead agency because of the
2 implications that Ms. Painter pointed out.

3 The CEC does have a responsibility in
4 the verification of the information in the
5 application, and they have failed to comply with
6 the existing regulations.

7 As Ms. Painter also pointed out, that
8 neither proposal has the necessary permits for
9 geothermal activity. And given the extreme
10 controversy that extends beyond the local level
11 both applicants have a responsibility to have
12 their permit in place and the CEC to have them in
13 their possession before any funding is granted,
14 even on a conditional basis.

15 Now yesterday I sent a fax that
16 contained a letter from the Advisory Council on
17 Historic Preservation. And I assume that most of
18 you -- or that the Commissioners did get a copy of
19 that?

20 CHAIRMAN KEESE: We have -- I have
21 received a copy. I believe it's been distributed
22 to all the Commissioners.

23 MS. REICH: Okay, thank you very much.
24 What that letter basically does is lets the
25 Commissioners know that the issues here at the

1 Medicine Lake Highlands go beyond the local level.
2 The Advisory Council came to the Medicine Lake
3 Highlands from Washington, D.C., as a federal
4 agency, to determine what should be done with that
5 area.

6 The area, in 1999, pretty much the whole
7 caldera was determined to be a traditional
8 cultural district that was eligible for that
9 designation. And they concluded, after their
10 thorough evaluation, just as the Jefferson
11 Democrats did, that the proposed site for the
12 Telephone Flat development project was wrong, and
13 that the cost, the historic resources of Native
14 Americans in our nation are too high.

15 This is really important because every
16 part of funding that goes from the CEC facilitates
17 the geothermal exploration and development that
18 would occur in this traditional cultural district.

19 Both development projects that have been
20 put forth to date within the Medicine Lake
21 Highlands have been determined to be an
22 environmental justice issue because of the
23 discrimination factor and the impact to those
24 Native Americans.

25 Therefore, it would seem that the CEC

1 should seriously consider promoting further
2 projects that result in environmental justice
3 impacts.

4 In conclusion, I will just summarize
5 that we believe that Calpine, had they disclosed
6 all the relevant information, that the CEC's score
7 for the project would well be below its current
8 average of 83 points out of 120.

9 Calpine has failed, as we said, to meet
10 the requirements of section 22 and 23 in the
11 general provisions. They have not secured their
12 permits. We recommend that the CEC deny the
13 funding for this survey mapping for the geothermal
14 resources which is primarily in the caldera and,
15 as Janie Hoffman (sic) said, includes Mount
16 Hoffman. It's not a pumice mine. It is the Mount
17 Hoffman Roadless area.

18 Now that roadless area is 11,000 acres;
19 and the project that Calpine is proposing at
20 wellhead 1832 would require one mile of road
21 construction in that roadless area, and it would
22 require clear-cutting two and a half to three
23 acres in that roadless area. And it is
24 inconsistent with the roadless area conservation
25 rule. They failed to tell you that.

1 They failed to inform the California
2 Energy Commission in their application that that
3 project was in a roadless area, and therefore had
4 to meet the requirements of the roadless area
5 conservation rules.

6 I would also like to say that I've
7 spoken with Michelle Berbitschevsky from the
8 Native Coalition --

9 CHAIRMAN KEESE: She's going to speak
10 next.

11 MS. REICH: Oh, okay, good. I didn't
12 know she was on the line. But I just want to say
13 that I appreciate the California Energy
14 Commission, the Public Adviser folks are really
15 facilitating the Ecology Center getting the
16 information and being able to review it so that we
17 could make -- participate in a meaningful way with
18 the Energy Commission today.

19 And I would ask you to seriously
20 consider those comments that the Advisory Council
21 set forth. And that you delay granting any type
22 of conditional award to either one of these
23 projects.

24 And if you have any questions I will be
25 online.

1 CHAIRMAN KEESE: Thank you. Before we
2 ask -- I have some questions for staff, also --
3 but we'll go to Michelle Berbitschevsky first.

4 MS. REICH: Thank you.

5 MS. BERBITSCHESKY: Can everyone hear
6 me?

7 CHAIRMAN KEESE: Yes, we can.

8 MS. BERBITSCHESKY: I'm Michelle
9 Berbitschevsky; I'm the Executive Secretary for
10 the Native Coalition for Medicine Lake Highlands
11 Defense. And I want to thank the Commissioners
12 for this opportunity to be heard, especially to be
13 able to participate through this conference
14 calling system.

15 The Native Coalition is opposed to
16 Calpine's funding request on several counts. We
17 believe that Calpine failed to disclose to the
18 California Energy Commission the full situation as
19 it is relevant to Native American cultural values.

20 And because of this failure to disclose
21 the CEC cannot really assure that their
22 requirements, that the project meets all state and
23 federal regulations and that it has received all
24 the necessary approvals, that this cannot be
25 assured by the CEC. And so your -- we don't

1 believe this project meets your guidelines.

2 CHAIRMAN KEESE: I'm going to -- as you
3 are the last of our witnesses on the phone, as
4 soon as you're done I'm going to ask staff those
5 questions.

6 MS. BERBITSCHESKY: I wanted to add a
7 little more if that's all right?

8 CHAIRMAN KEESE: That's fine.

9 MS. BERBITSCHESKY: The project at
10 present relies on a 1995 environmental assessment.
11 And this '95 environmental assessment does not
12 cover the traditional cultural district. So we
13 have new conditions, under NEPA and CEQA, as well,
14 I believe, when there are significant new
15 conditions such as the presence of a traditional
16 cultural district, the NEPA process and CEQA
17 probably also, have to be supplemented.

18 The '95 EA stated that if there were
19 cultural properties this project would create a
20 significant impact. And because of this
21 statement, it is very likely, in fact it is a sure
22 thing that a section 106 process would be required
23 under the National Historic Preservation Act.

24 Any project that has a significant
25 impact would require a section 106 process. And

1 the outcome of that 106 process can be to
2 recommend denial of the project.

3 We believe Calpine did not disclose the
4 cultural significance of the area, and did not
5 disclose this situation to the CEC, and therefore
6 the project is extremely risky because of these
7 additional requirements that will have to be met.

8 The project was not covered in the most
9 recent environmental assessment that came out in
10 2002. And this 1995 environmental assessment is
11 no longer current. So we believe that the
12 documentation required by the GRDA manual has not
13 been met.

14 And, of course, Calpine has not obtained
15 the permits from the Siskiyou County Air Pollution
16 Control District, nor from BLM, which I believe
17 CEC knows that.

18 So the Native Coalition is very much
19 against funding this project. It would have great
20 impact, serious impact on the traditional cultural
21 values that are very sacred to Native Americans of
22 the area.

23 And I'd be glad to answer any questions
24 if you have any. And thank you very much for this
25 opportunity.

1 CHAIRMAN KEESE: Thank you for joining
2 us and stay on the line.

3 We are a forum, a funding forum. And
4 there obviously is also a permitting forum that
5 allows these activities to go forward. We do not,
6 at the Commission level, have authority for
7 permitting, and do not take it up.

8 So I guess my question to staff and to
9 the Committee that handled this and sent it
10 forward is, I am sure you looked at the issue of
11 appropriateness of a grant of funds to these two
12 entities for a project in this area.

13 Could you answer some of the questions
14 that have been raised, and in particular, I think
15 what the Commissioners would like to know is, is
16 this project appropriately before us at this time?
17 Have circumstances changed such that you would
18 switch your recommendation to us?

19 MS. SISON-LEBRILLA: Certainly there's a
20 possibility that circumstances have changed.
21 Typically when we start this process -- it's a
22 fairly long process, we started in the spring.
23 But the proposal before you is funding of this
24 project conditioned on all permits for this
25 project being received before funding can be

1 released.

2 Now, if Calpine cannot get these
3 permits, cannot pass through these other processes
4 that are not within our control, then they will
5 get no funding.

6 And that is the proposal that is before
7 you.

8 CHAIRMAN KEESE: And none of the things
9 you heard today are a fatal flaw in presenting
10 that our contingent funding to us?

11 MS. SISON-LEBRILLA: I don't believe so,
12 because if they don't get -- I mean they are --
13 for the permitting process. If they do not get
14 permits we don't give them any money. So, our
15 money doesn't come into play.

16 CHAIRMAN KEESE: Until the permits are
17 granted?

18 MS. SISON-LEBRILLA: Until the permits
19 are granted. And that is the condition that we
20 are bringing forward to this Commission.

21 CHAIRMAN KEESE: Thank you. Do we have
22 any other questions? Yes, Commissioner Geesman.

23 COMMISSIONER GEESMAN: I wonder if you
24 would respond, Elaine, to the allegations that
25 Calpine misrepresented anything in their

1 application for this funding.

2 MS. SISON-LEBRILLA: At this point this
3 whole process and -- the solicitation process
4 typically is we receive a preapplication and a
5 final application. The Commission puts together a
6 technical advisory group. And the technical
7 advisory group for this particular solicitation is
8 three Commission Staff, one representative from
9 DOE and one representative from I believe it's
10 Mines and Geology, another sister agency in
11 California.

12 The tech did not believe that Calpine
13 had misrepresented themselves. But we did express
14 concern that possibly permitting may be an issue.
15 That is why we are bringing forward this project
16 for funding contingent on all permits being
17 issued. If there are no permits, or if none of
18 the -- if there are some concerns and questions
19 about the permits, then they will not receive any
20 money. They need to show us permits before we
21 release the funding.

22 COMMISSIONER GEESMAN: Mr. Chairman, in
23 Commissioner Rosenfeld's absence, I conducted the
24 R&D Committee hearing that took this up. And
25 permitting was not one of the criteria by which

1 these applications were evaluated.

2 And there wasn't any indication that any
3 of the information submitted by the applicants was
4 inaccurate.

5 I don't think any of the comments that
6 we heard over the phone today really changed that.
7 I think there is a general question as to whether
8 we want to be making such a contingent award, but
9 the environmental permitting process was not one
10 of the criteria that the review committee applied
11 in determining technical merit of any of the
12 applications.

13 CHAIRMAN KEESE: Thank you.
14 Commissioner Boyd.

15 COMMISSIONER BOYD: Geothermal
16 development in this area has been an issue of
17 contention for several years, way predating my
18 sitting on this Commission. But I am very
19 familiar with the issues based on my previous
20 position in government.

21 I guess a question I have is, and this
22 is pure speculation, going to be pure speculation
23 on the part of staff, but do we have any
24 indication of the possibility of geothermal
25 development never being allowed in this area? Do

1 we have any indication from the other permitting
2 agencies -- based on the history of other
3 permitting agencies, such as the BLM, indicating
4 that they would never permit geothermal
5 development in this area, or any of the other
6 federal agencies that would have to do so?

7 MR. BEYER: I'd say that -- I'm John
8 Beyer; I was on the technical advisory committee
9 for these proposals.

10 I think staff is well aware that this
11 has been a controversial area, also, for quite
12 some time. We do know that in the area Calpine is
13 just completing one deep exploratory well.

14 This contentious issue has been going
15 on. Calpine has been making its case. The
16 current well is being drilled. I certainly expect
17 that permitting for the proposed well here will
18 also be contentious. And fair to say I don't
19 think we know the outcome.

20 We don't think that Calpine basically
21 failed to disclose information to us. We are
22 aware of the situation. We evaluated the proposal
23 on what we regarded as its technical merits, its
24 cost considerations and prior studies by the
25 Commission that show that the Medicine Lake area

1 is potentially a very significant geothermal
2 resource. This is really looking at geologic
3 considerations.

4 As has already been said, the permitting
5 is not something we were engaged in. And not one
6 nickel of Commission money goes to support that
7 effort for permitting, because they need to have
8 all permits in place before they receive any of
9 our money.

10 It was on that basis we evaluated, and
11 we thought that technically this is very
12 definitely a viable project to see if there is, in
13 fact, a geothermal resource that can be tapped in
14 that area. And that's an unknown question at this
15 point.

16 COMMISSIONER GEESMAN: And I think
17 that's the basis, Mr. Chairman, on which we should
18 make our judgment. That was the approach that the
19 Committee took.

20 We don't have an evidentiary record in
21 front of us as it relates to these permitting
22 issues. That's in front of someone else.

23 And I think for us to try and make a
24 judgment that reflects those considerations
25 involves a lot of prejudgment, and it's beyond our

1 capacity to conduct a mini-permit process before
2 awarding these grants.

3 The staff's approach is to make the
4 award contingent on receipt of full permit. I
5 don't think we can improve upon that.

6 CHAIRMAN KEESE: I -- having heard
7 everything I think I would concur that what I hear
8 staff saying is that we will -- that on a
9 technical basis they would approve this.

10 And that the legitimate concerns raised
11 by those who have written to us and those who have
12 spoken on the phone are concerns that will be
13 weighed against that technical evaluation in an
14 appropriate forum. It's not here. We are not the
15 appropriate forum for the weighing of those, the
16 balancing of those interests.

17 But on the technical basis on which we
18 are to judge, this meets the criteria.

19 COMMISSIONER PERNELL: Mr. Chairman.

20 CHAIRMAN KEESE: Commissioner Pernell.

21 COMMISSIONER PERNELL: Mr. Chairman, I
22 would agree with Commissioner Geesman, and just
23 say to those, our guests on the phone, that there
24 is an opportunity for you to be heard in the
25 permitting process.

1 We have prided ourselves on our open-
2 door process when it comes to permitting and any
3 other action that this Commission takes. So that
4 even it has been said that this is not the venue
5 in which you should present your objections, but
6 there is opportunity to do so.

7 So I don't want you to be discouraged by
8 that, but I think what I'm hearing, at least up
9 here on the dais is that this is not the venue in
10 which to do it.

11 COMMISSIONER ROSENFELD: I'm comfortable
12 with that, too.

13 CHAIRMAN KEESE: Thank you.
14 Commissioner Rosenfeld, do you have --

15 COMMISSIONER ROSENFELD: No, I just --
16 I'm comfortable with the way that things are
17 going.

18 COMMISSIONER GEESMAN: I'll make the
19 motion, Mr. Chairman.

20 COMMISSIONER BOYD: I believe there's a
21 motion and a second --

22 CHAIRMAN KEESE: I'm sorry, we did have
23 a motion and a second. Do we have anybody else in
24 the audience who cares to comment on this?

25 All right, hearing none, all in favor?

1 (Ayes.)

2 CHAIRMAN KEESE: Opposed? Adopted five
3 to nothing.

4 Thank you to those who joined us. I
5 recognize the legitimacy of your concerns.

6 Item 7 is over to a future meeting, as I
7 had mentioned.

8 Item 8, Hydrologic Research Center.
9 Possible approval of contract 500-02-008 for
10 \$300,000 to demonstrate a reservoir management
11 program at four northern California reservoirs to
12 optimize water resource management.

13 Good morning.

14 MR. O'HAGAN: Good morning. My name is
15 Joe O'Hagan. I'm in the PIER environmental area.
16 The contract before you is for \$300,000 with the
17 Hydrologic Research Center, which is a nonprofit
18 organization located in San Diego.

19 The proposed project entails
20 demonstrating at four northern California
21 reservoirs a new approach to runoff forecasting
22 and decision making in terms of balancing water
23 demands at these reservoirs.

24 The four reservoirs include Lake Shasta,
25 Trinity and Folsom, which are operated by the

1 Federal Bureau of Reclamation, and Lake Oroville,
2 which is operated by the Department of Water
3 Resources.

4 The main thrust of the contract is to
5 improve runoff forecasting through the use of
6 global climate models that would allow simulation
7 of a whole variety of potential runoff conditions,
8 parameters that would cause that above and beyond
9 the historic database which is heavily relied on
10 now in terms of forecast predictions.

11 It would also allow, once this
12 information is downscaled to a watershed basis,
13 because the global climate models are quite
14 regional in scale, to provide a probability
15 analysis, a statistical approach called ensemble
16 forecasting where you look at the different
17 parameters that go into the forecast and their
18 individual probabilities to give overall reservoir
19 management manager a feeling of what is the
20 likelihood of "x" amount of runoff coming in a
21 certain day or not.

22 And the purpose of the forecasting
23 efforts would be to identify one day, one week and
24 a month or greater forecasts for the reservoir
25 managers.

1 Also then they're going to enhance
2 decision making efforts for the reservoir
3 operators in terms of balancing water supply,
4 spilling water for flood control concerns, and
5 increasing hydro generation at these reservoirs.

6 These four reservoirs represent over
7 1700 megawatts of installed hydroelectric
8 capacity. And being multipurpose dams, of course,
9 the operators are always balancing flood control
10 concerns, retaining water for water supply, and
11 running water through the turbines for generation.

12 This project, we're proposing about
13 \$300,000. CalFed has already contributed \$600,000
14 to this project. And the National Oceanic and
15 Atmospheric Administration is giving \$500,000 to
16 this project.

17 CHAIRMAN KEESE: Thank you. I would
18 have a question. Is the entire funding of this
19 project going to these four reservoirs?

20 MR. O'HAGAN: Yes, to demonstrate.

21 CHAIRMAN KEESE: I know this is a major
22 issue further north, also. It's becoming a major
23 issue in some of the market design issues for, for
24 instance, RTO West, which is everything north
25 of -- basically everything north of California.

1 And how to develop the best management system that
2 can be relied upon in the grid.

3 Are we coordinating at all with them?

4 MR. O'HAGAN: No, we haven't. But the
5 thrust is to demonstrate this approach and --

6 CHAIRMAN KEESE: Sure.

7 MR. O'HAGAN: -- you know, how it works
8 and --

9 CHAIRMAN KEESE: So they can --

10 MR. O'HAGAN: -- make alterations if
11 certain elements don't succeed. The contractors
12 have worked quite a bit throughout the nation with
13 noted authorities in this area. And this
14 information would be available, some being
15 copyrighted, to others in terms of reservoir --

16 CHAIRMAN KEESE: How long is the
17 project?

18 MR. O'HAGAN: The contract is for three
19 years.

20 CHAIRMAN KEESE: Thank you. Any other
21 questions here?

22 COMMISSIONER BOYD: Just a comment, Mr.
23 Chairman.

24 CHAIRMAN KEESE: Commissioner Boyd.

25 COMMISSIONER BOYD: Just following up on

1 your question, I'm assuming that if we meet
2 success with this project it would be easy for
3 this agency to share that success with its peer
4 organizations throughout the west and with the
5 various associations of agencies to be used as
6 perhaps a model for their operations, as well, so
7 it --

8 CHAIRMAN KEESE: Good, thank you.

9 COMMISSIONER BOYD: -- was a very
10 positive thing to do, based on my previous
11 experience.

12 CHAIRMAN KEESE: Thank you. Do I have a
13 motion?

14 COMMISSIONER ROSENFELD: I move.

15 CHAIRMAN KEESE: Motion by Commissioner
16 Rosenfeld.

17 COMMISSIONER GEESMAN: Second.

18 CHAIRMAN KEESE: Second by Commissioner
19 Geesman.

20 All in favor?

21 (Ayes.)

22 CHAIRMAN KEESE: Opposed? Adopted five
23 to nothing. Thank you.

24 MR. O'HAGAN: Thank you very much.

25 CHAIRMAN KEESE: Item 9, State and

1 Consumer Services Agency. Possible approval of
2 contract 400-02-003 for \$350,000 to provide
3 technical assistance and training for K-12
4 schools.

5 This is essentially, as I understand it,
6 money in and then money out?

7 MS. ORLANDO: Yes.

8 CHAIRMAN KEESE: So we're receiving the
9 money from Consumer Services, and we're pushing it
10 out.

11 COMMISSIONER PERNELL: Mr. Chairman.

12 CHAIRMAN KEESE: Commissioner Pernell.

13 COMMISSIONER PERNELL: Mr. Chairman,
14 this item came before the Committee and was passed
15 out of the Committee. And I would move the
16 item --

17 CHAIRMAN KEESE: Motion, Commissioner
18 Pernell.

19 COMMISSIONER PERNELL: -- unless there's
20 questions.

21 COMMISSIONER ROSENFELD: Second.

22 CHAIRMAN KEESE: Second, Commissioner
23 Rosenfeld. Any questions here?

24 I'll ask a quick question. It's all
25 Central Valley, right?

1 MS. ORLANDO: Yes, there's eight
2 counties in the Central Valley that this contract
3 will serve.

4 CHAIRMAN KEESE: Put the proposal
5 together, is that the way it became Central Valley
6 oriented?

7 MS. ORLANDO: Yes.

8 CHAIRMAN KEESE: Thank you.

9 All in favor?

10 (Ayes.)

11 CHAIRMAN KEESE: Opposed? Adopted five
12 to nothing. Thank you.

13 Item 10, TIAX, LLC. Possible approval
14 of contract 600-02-003 for \$1,680,000 to provide
15 expert technical assistance for advanced
16 transportation technologies and nonpetroleum fuels
17 infrastructure et cetera.

18 MS. STONER: Hello; I'm Sherry Stoner;
19 I'm with the technology office in the
20 transportation division.

21 And what we're requesting today is to
22 approve a new contract with TIAX for \$1,680,000.
23 This contract will provide technical support for
24 advanced transportation technology and
25 nonpetroleum fuels infrastructure support, global

1 climate change and program and policy development
2 in the advanced transportation area.

3 If approved, the term of the contract
4 will be November 1, 2002 to October 31, 2005.
5 That's three years.

6 The proposed contractor was chosen using
7 a standard request for proposal process. The
8 evaluation and selection committee found that this
9 proposal met the necessary technical score for
10 consideration. And the cost bid included
11 acceptable rates and hours necessary to complete
12 the scope of the work.

13 And I'm here to answer any questions.

14 CHAIRMAN KEESE: Thank you.

15 COMMISSIONER BOYD: Mr. Chairman.

16 CHAIRMAN KEESE: Commissioner Boyd.

17 COMMISSIONER BOYD: This item was
18 reviewed by the Transportation Committee,
19 Commissioner Geesman and myself. And recommended
20 to you by that Committee.

21 And I would so move its adoption.

22 CHAIRMAN KEESE: Motion, Commissioner
23 Boyd.

24 COMMISSIONER GEESMAN: Second.

25 CHAIRMAN KEESE: Second, Commissioner

1 Geesman.

2 All in favor?

3 (Ayes.)

4 CHAIRMAN KEESE: Opposed? Five to
5 nothing. Thank you.

6 Item 11, Salton Sea Unit #6 Geothermal
7 Power project. Possible reconsideration of a
8 Committee.

9 COMMISSIONER GEESMAN: Mr. Chairman.

10 CHAIRMAN KEESE: Commissioner Geesman.

11 COMMISSIONER GEESMAN: In Commissioner
12 Pernell's absence at our last meeting we seem to
13 have had a communication mix-up. I think the best
14 way to fix that would be to swap me out and swap
15 him in as the Associate Member on that Committee.
16 And I would so move.

17 CHAIRMAN KEESE: Motion by Commissioner
18 Geesman.

19 COMMISSIONER BOYD: Second.

20 CHAIRMAN KEESE: Second by Commissioner
21 Boyd.

22 All in favor?

23 (Ayes.)

24 CHAIRMAN KEESE: Opposed? Adopted five
25 to nothing. Thank you.

1 Minutes, we have the minutes of
2 September 25th.

3 COMMISSIONER GEESMAN: So moved.

4 COMMISSIONER PERNELL: Second.

5 CHAIRMAN KEESE: Motion, Commissioner
6 Geesman; second, Commissioner Pernell.

7 All in favor?

8 (Ayes.)

9 CHAIRMAN KEESE: Opposed? Adopted. And
10 the little birdie has indicated to me that within
11 the next month we should have all prior minutes up
12 to date.

13 Item 13, Commission Committee and
14 Oversight. Commissioner Pernell.

15 COMMISSIONER PERNELL: Mr. Chairman,
16 thank you. The Legislative Committee has -- and
17 you are a member of -- a couple of meetings ago we
18 had a report from the Legislative Committee,
19 however it wasn't the end of the signing period by
20 the Governor.

21 So we now have a complete report. And,
22 if I may, with the indulgence of the Committee,
23 just mention that there are 30 bills that we
24 either were tracking, sponsored or provided
25 amendments to. And those bills are in your packet

1 with a little synopsis of them.

2 And the other thing that I wanted to
3 mention that is not reflected in any of your
4 documents is that those bills that we opposed
5 never got to the Governor's Desk. And I think
6 that that's a tremendous achievement by our OGA
7 department.

8 And I also want to just single out those
9 members of the department and their supportive
10 staff. And then we'll have Tim just briefly go
11 over some of the bills that affected us the most.

12 First of all on the OGA's staff we have
13 Tim Schmelzer, Cece Martin, Cece, stand up, and --

14 (Laughter - Applause.)

15 COMMISSIONER PERNELL: -- I like to
16 embarrass Cece. Also Michael Poe. And then on
17 the supportive staff there's Phil and Nicole
18 Darden who is a student.

19 So would we please give them a round of
20 applause. They are batting 100.

21 (Applause.)

22 COMMISSIONER PERNELL: A 1000, yes,
23 whatever. We haven't lost on this one. But I'm
24 very very appreciative of the work that Tim has
25 done.

1 I, in my previous life, was a
2 legislative advocate; and we -- had vetoes or
3 we've had some signed, but we've never had 100
4 percent of our issues addressed in the way that
5 the Commission's have been addressed.

6 So I do applaud OGA for that. Tim.

7 MR. SCHMELZER: Thank you very much on
8 behalf of OGA, and of course, none of this is
9 possible without the support of the Commissioners
10 and staff, who was very helpful this year. So,
11 thank you.

12 Last time I was here I talked about all
13 the bills that had been passed. And as
14 Commissioner Pernell said, those bills have now
15 all been signed.

16 I'll briefly just go over some of what I
17 consider highlights of the session from the Energy
18 Commission point of view, and should there be any
19 questions about those I'll answer those.

20 Something that I know is keeping a lot
21 of our staff busy right now is the procurement
22 proceeding going on at the Public Utilities
23 Commission and AB57, the first bill on your list,
24 addresses that directly. Something that we worked
25 with the author on a little bit, and were able to

1 make amendments actually to another bill to
2 address some concerns that we had brought up in
3 that.

4 But this bill is the bill that provides
5 the guidance for the PUC to develop this
6 procurement plan process. And we're seeing that
7 being played out right now at the PUC.

8 Briefly, some of the other legislation
9 that we were involved in: AB58 by Assemblymember
10 Keeley, extended the net metering laws. And
11 that's something that I know our renewable energy
12 program staff will be working on into the future.

13 I'm going to skip around a little bit at
14 this point. Mr. Smeloff had mentioned AB117 by
15 Assemblymember Migden. This bill allows for an
16 opt-out instead of having to opt-in for
17 communities to aggregate their load for purposes
18 of securing resources for their load. And thereby
19 making community aggregation a lot more feasible.
20 And the City of San Francisco is looking at that
21 right now.

22 On the energy efficiency front,
23 Assemblymember Kelley carried AB1561. This bill
24 requires the Energy Commission to adopt a more
25 stringent water factor standard for residential

1 clothes washers by January 1, 2004. And our
2 efficiency staff will be looking at that when it
3 does its appliance standard work.

4 A trailer bill that was put forth by the
5 budget committees in the Legislature for the first
6 time in over 20 years allows the Energy Commission
7 to increase the surcharge that supports the
8 Commission. And that should really help us with
9 our budgeting into the future. And that's
10 something that I know the Commissioners will be
11 looking at every year. November of every year
12 we're given that option to adjust that surcharge.

13 COMMISSIONER PERNELL: And that -- I'm
14 sorry, that particular surcharge will bring in
15 approximately how much to the Commission?

16 MR. SCHMELZER: Well, it provides the
17 option for the Commission to raise the state
18 energy surcharge up to one-tenth of a mill. If
19 the Commission chose to raise it that entire
20 amount, I believe that amounts to approximately
21 \$25 million. But it's not required that it goes
22 up at all, or to that maximum amount. But that's
23 the potential --

24 COMMISSIONER PERNELL: But it gives us
25 the flexibility if we need it in the budget we can